


STATE OF WASHINGTON
COUNTY OF KING

CERTIFICATE

I, Tracey Dunlap, Director of Finance and Administration of the City of Kirkland, Washington, do hereby certify that the foregoing budget entitled "CITY OF KIRKLAND 2011-2012 BUDGET" is a true, full, and correct copy of the 2011-2012 budget adopted by the City Council of Kirkland on December 7, 2010.

IN WITNESS WHEREOF I have hereunto subscribed my name and affixed the official seal of the City of Kirkland, Washington, this 26th day of April, 2011.




Tracey Dunlap, Director of Finance & Administration
CITY OF KIRKLAND



ORDINANCE NO. 4277

AN ORDINANCE OF THE CITY OF KIRKLAND ADOPTING THE BIENNIAL BUDGET FOR 2011-2012.

WHEREAS, the Kirkland City Council conducted a duly noticed public hearing on November 16, 2010, to take public comment with respect to the proposed Biennial Budget of the City of Kirkland for 2011-2012 and all persons wishing to be heard were heard; and

WHEREAS, the City Council finds that the proposed Biennial Budget for 2011-2012 reflects revenues and expenditures that are intended to ensure the provision of vital municipal services at acceptable levels;

NOW, THEREFORE, the City Council of the City of Kirkland do ordain as follows:

Section 1. The Biennial Budget of the City of Kirkland for 2011-2012, as set out in Exhibit "A" attached hereto and by this reference incorporated herein as though fully set forth, is hereby adopted as the Biennial Budget of the City of Kirkland for 2011-2012.

Section 2. In summary form, the totals of estimate revenues and appropriations for each separate fund and the aggregate totals for all such funds combined are as follows:

<u>Funds</u>	<u>Estimated Revenues</u>	<u>Appropriations</u>
General	158,468,558	158,468,558
Lodging Tax	495,989	495,989
Street Operating	13,867,939	13,867,939
Cemetery Operating	733,281	733,281
Parks Maintenance	2,133,563	2,133,563
Contingency	2,246,510	2,246,510
Impact Fees	1,701,073	1,701,073
Excise Tax Capital Improvement	12,917,441	12,917,441
Limited General Obligation Bonds	5,064,399	5,064,399
Unlimited General Obligation Bonds	2,138,406	2,138,406
General Capital Projects	42,721,620	42,721,620
Transportation Capital Projects	28,943,971	28,943,971
Water/Sewer Operating	45,401,516	45,401,516
Water/Sewer Debt Service	2,962,187	2,962,187
Utility Capital Projects	13,870,848	13,870,848
Surface Water Management	16,639,340	16,639,340
Surface Water Capital Projects	10,631,090	10,631,090
Solid Waste	30,858,591	30,858,591
Health Benefits	15,735,691	15,735,691
Equipment Rental	18,540,173	18,540,173
Information Technology	11,647,485	11,647,485

Facilities Maintenance	9,887,410	9,887,410
Firefighter's Pension	1,765,855	1,765,855
	<u>449,372,936</u>	<u>449,372,936</u>

Section 3. This ordinance shall be in force and effect five days from and after its passage by the Kirkland City Council and publication, as required by law.

Passed by majority vote of the Kirkland City Council in open meeting this 7th day of December, 2010.

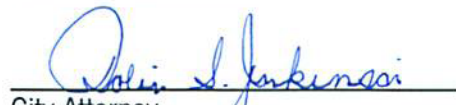
Signed in authentication thereof this 7th day of December, 2010.


MAYOR

Attest:


City Clerk

Approved as to Form:


City Attorney

CITY OF KIRKLAND

2011-12 BUDGET OVERVIEW: BY FUND/FUND TYPE

General Government Operating Funds

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>General Fund</i>				
010	General	121,338,605	158,468,558	30.60%
<i>Special Revenue Funds</i>				
112	Lodging Tax	798,648	495,989	-37.90%
117	Street Operating	9,705,917	13,867,939	42.88%
122	Cemetery Operating	210,362	733,281	248.58%
125	Parks Maintenance	2,227,124	2,133,563	-4.20%
126	Recreation Revolving	2,897,797	-	-100.00%
Total Special Revenue Funds		15,839,848	17,230,772	8.78%
<i>Internal Service Funds</i>				
511	Health Benefits Fund	-	15,735,691	N/A
521	Equipment Rental	13,667,679	18,540,173	35.65%
522	Information Technology	10,167,580	11,647,485	14.56%
527	Facilities Maintenance	9,373,036	9,887,410	5.49%
Total Internal Service Funds		33,208,295	55,810,759	68.06%
Total General Government Operating Funds		170,386,748	231,510,089	35.87%

General Government Non-Operating Funds

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Special Revenue Funds</i>				
152	Contingency	2,598,660	2,246,510	-13.55%
154	Cemetery Improvement	586,574	-	-100.00%
156	Impact Fees	4,151,098	1,701,073	-59.02%
157	Park & Municipal Reserve	11,528,172	-	-100.00%
158	Off-Street Parking Reserve	217,610	-	-100.00%
159	Tour Dock	126,275	-	-100.00%
170	Street Improvement	2,833,503	-	-100.00%
188	Grant Control Fund	222,924	-	-100.00%
190	Excise Tax Capital Improvement	22,396,187	12,917,441	-42.32%
Total Special Revenue Funds		44,661,003	16,865,024	-62.24%

CITY OF KIRKLAND

2011-12 BUDGET OVERVIEW: BY FUND/FUND TYPE

General Government Non-Operating Funds (Continued)

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Debt Service Funds</i>				
210	LTGO Debt Service	2,585,729	5,064,399	95.86%
220	UTGO Debt Service	2,687,388	2,138,406	-20.43%
Total Debt Service Funds		5,273,117	7,202,805	36.59%
<i>Capital Projects Funds</i>				
310	General Capital Projects	47,109,696	42,721,620	-9.31%
320	Transportation Capital Projects	18,330,402	28,943,971	57.90%
Total Capital Projects Funds		65,440,098	71,665,591	9.51%
<i>Trust Funds</i>				
620	Firefighter's Pension	1,634,077	1,765,855	8.06%
Total Trust Funds		1,634,077	1,765,855	8.06%
Total General Government Non-Op Funds		117,008,295	97,499,275	-16.67%

Water/Sewer Utility Funds

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Operating Fund</i>				
411	Water/Sewer Operating	46,202,650	45,401,516	-1.73%
Total Operating Fund		46,202,650	45,401,516	-1.73%
<i>Non-Operating Funds</i>				
412	Water/Sewer Debt Service	3,505,639	2,962,187	-15.50%
413	Utility Capital Projects	18,399,331	13,870,848	-24.61%
Total Non-Operating Funds		21,904,970	16,833,035	-23.15%
Total Water/Sewer Utility Funds		68,107,620	62,234,551	-8.62%

CITY OF KIRKLAND

2011-12 BUDGET OVERVIEW: BY FUND/FUND TYPE

Surface Water Utility Funds

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Operating Fund</i>				
421	Surface Water Management	12,946,027	16,639,340	28.53%
Total Operating Fund		12,946,027	16,639,340	28.53%
<i>Non-Operating Fund</i>				
423	Surface Water Capital Projects	11,238,517	10,631,090	-5.40%
Total Non-Operating Funds		11,238,517	10,631,090	-5.40%
Total Surface Water Utility Funds		24,184,544	27,270,430	12.76%

Solid Waste Utility Fund

Fund		2009-10 Budget	2011-12 Final Budget	Percent Change
<i>Operating Fund</i>				
431	Solid Waste Utility	18,578,902	30,858,591	66.09%
Total Operating Fund		18,578,902	30,858,591	66.09%
Total Solid Waste Utility Fund		18,578,902	30,858,591	66.09%

TOTAL ALL FUNDS		398,266,109	449,372,936	12.83%
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POLICIES



INVESTMENT POLICY



City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

1.0 Policy Statement

It is the policy of the City of Kirkland, ("the City") to invest public funds in a manner which provides the highest investment return with maximum security while meeting the daily cash flow requirements and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all financial assets for the City of Kirkland. These funds are accounted for in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds

Any new funds created by the Finance Director unless specifically exempted.

3.0 Objective

The primary objectives, in order of priority, for the City of Kirkland's investment activities are as follows:

- 3.1 **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
- 3.2 **Liquidity:** The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
- 3.3 **Safety:** Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from other investments.
- 3.4 **Yield:** The City's investments will be designed with the objective of attaining a market rate return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

Core investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- a. A security with declining credit may be sold early to minimize loss of principal.
- b. A security swap that would improve the quality, yield or target duration in the portfolio.
- c. Liquidity needs of the portfolio require that the security be sold.

4.0 Delegation of Authority

In accordance with City of Kirkland Municipal code, Ordinance No.2455, an Investment Committee was created consisting of the City Manager and Finance Director. Authority is granted to these individuals to invest any portion of the monies in the City's inactive funds or other funds in excess of current needs. The Finance Director may designate a person to coordinate the day to day operations of the investment portfolio.

5.0 Prudence

Investments will be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes (Prudent Person Standard).

The standard of prudence to be used by investment officials will be the "prudent person" and will be applied in the context of managing an overall portfolio. Investment officers meeting the "prudent person" standard will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to Investment Committee any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.

City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

7.0 Authorized Financial Dealers and Institutions

The Investment Committee will maintain a list of financial institutions as required by the Public Deposit Protection Commission (PDPC), authorized to provide investment services as outlined in R.C.W. 39.58.080. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. No public deposits will be made except in a qualified public depository in the State of Washington. These may include "primary" dealers or regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).

All brokers/dealers and financial institutions who desire to do business with the City must supply the Finance Director with the following: Annual audited financial statement, proof of Financial Industry Regulatory Authority (FINRA) Certification, certification of having read the City's investment policy and receipt of the City's Trading Authorization. The Investment Committee will conduct an annual review of the financial condition of authorized brokers/dealers and the safekeeping institution and an audit of the submitted documents on file.

8.0 Broker Allocation

Investment transactions will be based upon the financial institution or brokerage firm that offers the best price to the City on each particular transaction. The City will make its best effort to obtain three bids for purchase or sale of government agency securities other than new issues. If circumstances dictate fewer than three bids due to the volatility of the market place, lack of bids, etc. the Finance Director or the Deputy Director has the authority to waive this. Generally all brokers will not have the same inventory of agency securities available to sell, but should be able to offer comparable alternatives. Banker's acceptances and Certificates of Deposit (other than a compensating balance CD) also require the acquisition of at least three bids, and acceptance of the most attractive rate from among comparable alternatives. Where two or more institutions or brokers have offered the same low bid, allocation will go to the lowest bidder that has provided the best service to the City.

9.0 Authorized and Suitable Investments

The City is empowered to invest in the following types of securities:

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080) Eligible investments include:

- Obligations of the U.S. government;
U.S. Treasury Notes, Bonds and Bills

City of Kirkland

Investment Policy

Adopted by Resolution (R-4797) on January 5, 2010

- Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprises (GSE's) with the exception of mortgage backed securities (MBS), which are prohibited.

Specific listing:

Federal Home Loan Bank - FHLB
Federal Farm Credit Bank - FFCB
Government National Mortgage Association - GNMA
Federal Home Loan Mortgage Corporation - FHLMC
Federal National Mortgage Association - FNMA
Federal Agricultural Mortgage Corporation - FAMC
Tennessee Valley Authority - TVA

* Other issuers may qualify if they meet the above criteria.

- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1. If the banker's acceptance is rated by more than two NRSROs., it must have the highest rating from all the organizations. Banker's Acceptances are considered illiquid as there is no active secondary market for these securities.
- Commercial Paper, provided that the Finance Director adheres with the policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7), including the following:
 - Must have the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. A-1+, A1+, or P-1.
 - Must be approved by the Investment Committee.
 - Purchases of commercial paper issued by a firm on negative credit watch is prohibited.
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission;
- Local Government Investment Pool, for proceeds of bonds, liquidity funds or other debt obligations;

City of Kirkland Investment Policy

Adopted by Resolution (R-4797) on January 5, 2010

- Obligations of the State of Washington or its political sub-divisions with the following guidelines:
 - Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys
 - Purchases of any security on negative credit watch is prohibited.
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Obligations of a state other than the State of Washington or its political sub-divisions, with the following guidelines:
 - Limited to securities which have one of the two highest rating categories by two of the NRSROs. Requiring AA- or better from Fitch and Standard & Poors and a Aa3 by Moodys
 - Purchases of any security on negative credit watch is prohibited.
 - Procedures for steps to be taken should an issuer be placed on credit watch or downgraded are included in the Investment Procedures.
- Repurchase Agreements. The City does not actively invest in repurchase agreements for short term investments. However, if a repurchase agreement is utilized collateralization is required. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest. Re-pricing of the collateral should occur daily.

The City chooses to limit the collateral to Treasury and GSE Agency securities only, with a maximum maturity of three years.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

If the City chooses to invest in repurchase agreements, only primary dealers are to be used as counterparties to repurchase agreements, short term credit rating must be the highest credit rating, A-1 or the equivalent and a long term rating of A or the equivalent, the approved Bond Market Association's master repurchase agreement must be executed and on file prior to entering into these transactions and the maximum term for a repurchase agreement shall be limited to 30 days.
- The City is prohibited from purchasing securities that leverage the portfolio or are used for speculation on interest rates.

City of Kirkland Investment Policy

Adopted by Resolution (R-4797) on January 5, 2010

10.0 Investment Pools / Mutual Funds

The City is allowed to invest in the Washington State Local Government Investment Pool as authorized by City of Kirkland Resolution 3370. The City is restricted from investing in mutual funds by State Statute.

11.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated by a member of the Investment Committee.

12.0 Diversification

The City will diversify its investments by security type and institution so that reliance on any one issuer or financial institution will not place an undue financial burden on the City. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

The following table provides maximum portfolio and issuer limit guidelines for the eligible securities which shall be complied with at the time of a security purchase, unless an exception waiver is approved by the Investment Committee. However, no sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio.

Investment	Percent of Fund	Percent Per Issuer	Maturity
US Treasury Obligations	100	100	5 Years
US Agency Obligations	100	30	5 Years
Callable Agency Securities	50	30	5 Years
State or Political Subdivision Securities	20	5	5 Years
Certificates of Deposits	10	5	1 year
Bankers Acceptances	5	5	180 days
A-1/P-1 Commercial Paper	5	5	180 days

Special funds may have maturities in excess of stated guidelines due to specific fund objectives.

City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

13.0 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, or estimated to cash flow needs, the City will not directly invest in securities maturing more than five (5) years from the date of settlement.

The maximum weighted average maturity (WAM) of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive market exposure. The WAM refers to the final WAM not the effective WAM.

Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

14.0 Internal Control

On an annual basis, the Investment Committee, in conjunction with the State Auditor's Office, will evaluate conformance with the Investment Policy and audit internal controls. The purpose of these examinations shall be to audit the accountability of the City's Investment Portfolio and to verify that Investment Officials have acted in accordance with the investment policies and procedures. Should the Investment Procedures be in conflict with the Investment Policy, the Investment Policy is the final authority.

15.0 External Control

The City will have an external review of the investment policy and procedures every three (3) years. The City may enter contracts with third-party investment advisory firms when their services are required.

16.0 Performance Standards

The portfolio shall be managed to obtain a fair rate of return, keeping in mind the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

For purposes of this policy, "fair rate of return" will be a band between the average yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

17.0 Reporting Requirements

17.1 The Finance Director shall prepare a quarterly and annual investment report summarizing the activity of the investment portfolio as to types of investments, yields, maturities and other related data.

17.2 Monthly reports will be submitted to the Investment Committee that report market value changes and investment income.

17.3 Additional reporting requirements are outlined in the Investment Procedures.

18.0 Investment Policy Adoption

The City's investment policy shall be adopted by City Council. The policy shall be reviewed annually by the Investment Committee. Any modifications shall be submitted and approved by City Council.

City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

GLOSSARY

BANKERS' ACCEPTANCES (Bas) – Bankers Acceptances are a form of a loan used in import-export financing transactions which becomes negotiable when accepted by a bank. The issuing bank is liable for the payment at its maturity. Terms vary but normally they are under six months and are purchased on a discount basis.

BROKER – A middleman who brings buyers and sellers together and handles their orders generally charging a commission for their services.

CERTIFICATES OF DEPOSIT – Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

COMMERCIAL PAPER - A short – term promissory note issued by a bank holding company, for the purpose of financing current transactions. Issues are sold on a discount basis with maturities up to 270 days.

DELIVERY VS PAYMENT – Physical delivery of collateral securities or book entry control in exchange for the cash payment. Under this system funds are not transferred until the securities are delivered. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished.

DEPOSITORY – A bank or financial institution accepting cash deposits and investments.

DIVERSIFICATION – Dividing available funds among a variety of securities and institutions so as to minimize market risk.

DURATION - The number of years required to receive the present value of future payments, both of interest and principle, of a bond, often used as an indicator of a bond's price volatility resulting from changes in interest rates.

FEDERAL CREDIT AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

FEDERAL HOME LOAN BANKS (FHLB) - The 12 Federal Home Loan Banks are a system of regional banks from which local lending institutions everywhere in America borrow funds to finance housing, economic development, infrastructure and jobs. About 80 percent of U.S. lending institutions rely on the Federal Home Loan Banks. Because the Federal Home Loan Banks are cooperatives, their low costs are passed on to consumers and communities.

City of Kirkland
Investment Policy
Adopted by Resolution (R-4797) on January 5, 2010

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA, or Fannie Mae) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE) - Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA, or FMHM mortgages. The term passthroughs is often used to describe Ginnie Maes.

GOVERNMENT SPONSORED ENTERPRISES (GSE's) - A group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage borrowing segment is by far the largest of the borrowing segments that the GSE's operate in.

LIQUIDITY - The length of time required to convert any investment to cash.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE – The market value of a security is the price at which the last sale of the same issue was sold.

MATURITY – The date upon which the principal or stated value of an investment becomes due.

PRINCIPAL – The cost of an instrument on which interest is earned.

REPURCHASE AGREEMENT – Range in maturity from overnight to fixed time to open end. Repo's involve a simultaneous sale of securities by a bank or government securities dealer to a city with an agreement for the bank to repurchase the securities at a fixed date at a specified rate of interest.

SAFEKEEPING – An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

City of Kirkland
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SEC RULE 15c3-1 - An SEC rule that sets minimum net capital requirements for broker-dealers. Firms are expected to have liquid assets equal to or greater than a certain percentage of total liabilities. If the ratio falls below this minimum, the broker-dealer may face restrictions on soliciting new business or on keeping existing business. See UNIFORM NET CAPITAL RULE.

SECONDARY MARKET – A market where certain securities may be bought and sold at prevailing market prices after their initial distribution but before their state maturity date.

TREASURY BILLS – Short-term marketable securities issued by the U.S. Treasury and secured by the Federal Government and have maximum liquidity.

TREASURY NOTES AND BONDS – These are direct obligations of the U.S. Government with maturities from one to ten years on the notes and 10 to 30 years on the bonds.

UNIFORM NET CAPITAL RULE - Securities & Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE MATURITY - The average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio. Weighted average maturity measures the sensitivity of fixed-income portfolios to interest rate changes. Portfolios with longer WAMs are more sensitive to changes in interest rates because the longer a bond is held, the greater the opportunity for interest rates to move up or down and affect the performance of the bonds in the portfolio.

EFFECTIVE WEIGHTED AVERAGE MATURITY - For a single bond, it is a measure of maturity that takes into account the possibility that a bond might be called back to the issuer.

For a portfolio of bonds, average effective maturity is the weighted average of the maturities of the underlying bonds. The measure is computed by weighing each bond's maturity by its market value with respect to the portfolio and the likelihood of any of the bonds being called.

YIELD – The rate of annual return on an investment expressed as a percentage.

RESOLUTION R-4797

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
ADOPTING A REVISED POLICY FOR INVESTMENT OF CITY FUNDS.

WHEREAS, the City Council of the City of Kirkland deems to have City funds invested in secure depositories and maximize returns on these investments; and

WHEREAS, the City Council of the City of Kirkland desires to develop an investment policy to guide the investment of City funds to meet these objectives; and

WHEREAS, the Kirkland City Treasurer (Deputy Director of Finance) has recommended revisions to the policy for investment of City funds; and

WHEREAS, the City of Kirkland investment policy has been written in accordance with the Washington Municipal Treasurers Model Investment Policy.

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The policy for investment of City funds set forth in the document entitled "City of Kirkland Investment Policy September 29, 2009" which is attached hereto as Attachment A and incorporated herein by this reference as if set forth in full is hereby adopted as official policy for investment of City funds.

Section 2. That the document entitled City of Kirkland Investment Policy September 29, 2009, replaces all previous City of Kirkland Investment Policies.

Passed by majority vote of the Kirkland City Council in open meeting this 5th day of January, 2010.

Signed in authentication thereof this 5th day of January, 2010.

MAYOR

Attest:


City Clerk

DEBT MANAGEMENT POLICY



City of Kirkland
Debt Management Policy
Adopted by Resolution (R-4837) on September 21, 2010

The Debt Policy for the City of Kirkland (City) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

1.0 Uses of Debt

- 1.1 City of Kirkland uses debt as a mechanism to equalize the costs of needed capital improvements for the benefit of both present and future citizens;
- 1.2 City of Kirkland uses debt as a mechanism to reduce the immediate costs of substantial public improvements.
- 1.3 The City of Kirkland will not use long-term debt to support current operations.
- 1.4 Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- 1.5 Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- 1.6 Interest, operating, and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.

2.0 Debt Limits

2.1 Legal Limits:

- 2.1.1 The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. RCW 39.36.020
- 2.1.2 The following individual percentages shall not be exceeded in any specific debt category:
 - General Debt - 2.5% of assessed valuation
 - Non-Voted 1.5% Limited Tax General Obligation (LTGO) Bonds
 - Voted 1.0% Unlimited Tax General Obligation (UTGO) Bonds
 - Utility Debt - 2.5% of assessed valuation
 - Open Space and Park Facilities - 2.5% of assessed valuation

2.2 Public Policy Limits:

- 2.2.1 The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP).
- 2.2.2 Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- 2.2.3 Debt will be issued in accordance with the CIP as necessary.
- 2.2.4 Where borrowing is recommended, the source of funds to cover debt service requirements must be identified.

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2.2.5 The City, as determined by the City Council, may consider using long term debt toward public improvements, which have an identified public benefit to the City, associated with economic development to the extent that new revenues from the project, in excess of those identified by the City Council for other City purposes can be agreed upon to support the debt service.

2.3 Financial Limits:

2.3.1 The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

2.3.2 The City will conduct a debt affordability analysis to evaluate the City's ability to support debt. The analysis will review available resources for the amount of debt the City can initiate each year, and project the effects of that financing through six years of the CIP.

3.0 Allowable Types of Debt

3.1 Short Term Obligations: Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund's current operations. All interfund loans will be subject to Council approval, will bear interest based upon prevailing rates and have terms consistent with state guidelines for interfund loans.

3.2 Assessment/ LID Bonds: Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the City. LID's are formed by the City Council after a majority of property owners agree to the assessment.

3.3 General Obligation Bonds Limited Tax: General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund revenues and taxes collected by the City. Limited Tax General Obligation (LTGO) Bonds can be issued with the approval of the City Council and will only be issued if:
A project requires funding not available from alternative sources;
Matching fund monies are available which may be lost if not applied for in a timely manner; or Emergency conditions exist.

3.4 General Obligation Bonds Unlimited Tax: Unlimited Tax General Obligation (UTGO) Bonds are payable from excess tax levies and is subject to voter approval by 60% of the voters.

3.5 Revenue Bonds: Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Program and are generally payable from the enterprise. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required.

3.6 Leases: Lease purchase or financing contracts are payment obligations that represent principal and interest components which are general obligations of the City.

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3.7 Other Loan Programs:

3.7.1 Public Works Trust Fund Loans are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges.

3.7.2 The Local Option Capital Asset Lending (LOCAL) Program is a financing contract with the Office of the State Treasurer under RCW 39.94. It is an expanded version of the state agency lease/purchase program that allows pooling funding needs into larger offerings of securities. This program allows local government agencies the ability to finance equipment needs through the State Treasurer's office, subject to existing debt limitations and financial consideration.

3.7.3 Other state funded programs.

3.8 Alternative types of debt: No variable-rate debt or derivative products shall be utilized.

4.0 Debt Structuring Practices

4.1 Maximum term, Payback Period and Average maturity:

4.1.1 The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life with the average life of the bonds less than or equal to the average life of the assets being financed.

4.1.2 General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.

4.1.3 The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.

4.2 Debt Service Structure:

4.2.1 Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.

4.3 Criteria for issuance of advance refunding and current refunding bonds

4.3.1 The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will not be pursued without a sufficient net present value benefit after expenses.

4.4 Other structuring practices:

4.4.1 Bond amortization schedules will be structured to minimize interest expense with the constraints of revenues available for debt service. The bonds should include call features to maximize the City's ability to advance refund or retire the debt early. However, call features should be balanced with market conditions to ensure that the total cost of the financing is not adversely affected.

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5.0 Debt Issuance Practices

- 5.1 Council Approval: City Council approval is required prior to the issuance of debt.
- 5.2 Analytical Review: An analytical review shall be conducted prior to the issuance of debt including, but not limited to, monitoring of market opportunities and structuring and pricing of the debt.
- 5.3 Use of credit ratings, minimum bond ratings, determination of the number of ratings and selection of rating services: The City will continually strive to maintain its bond rating by improving financial policies, budget, forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved. The City will maintain good communication with bond rating agencies about its financial condition, coordinating meetings, and presentations in conjunction with a new issuance as necessary.
- 5.4 Compliance with Statutes and Regulations: The Finance Director, City Attorney and bond counsel shall coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with legal and regulatory requirements by the State of Washington and the Federal Government's laws, rules and regulations.
- 5.5 Selection and use of professional service providers:
 - 5.5.1 The City's Finance and Administration Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.
 - 5.5.2 Bond Counsel: All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.
 - 5.5.3 Financial Advisor: A Financial Advisor(s) may be used to assist in the issuance of the City's debt. The Financial Advisor will provide the City with the objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring of market opportunities, structuring and pricing of debt, and preparing official statements of disclosure.
 - 5.5.4 Underwriters: An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.
 - 5.5.5 Fiscal Agent: A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.
- 5.6 Criteria for determining sales method and investment of proceeds:
 - 5.6.1 The Director of Finance and Administration shall determine the method of sale best suited for each issue of debt.
 - 5.6.2 The City will generally issue its debt through a competitive process. For any competitive sale of debt, the City will award the issue to the underwriter offering to buy the bonds at a price and interest rates that provides the lowest True Interest Cost (TIC).

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- 5.6.3 The City will provide for the sale of debt by negotiating the terms and conditions of sale when necessary to minimize the cost and risks of borrowing under the following conditions:
- i. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
 - ii. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
 - iii. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
 - iv. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

- 5.7 Bond Insurance: For each issue, the City will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City shall be competitively procured.

6.0 Debt Management Practices

6.1 Investment of Bond Proceeds

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds, including City of Kirkland Investment Policy.

6.2 Continuing Disclosure

The City shall provide annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies. Disclosure shall take the form of the Comprehensive Annual Financial Report (CAFR) unless information is required by a particular bond issue that is not necessarily contained within the CAFR.

6.3 Arbitrage Rebate monitoring and filing

The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations, and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate. All necessary rebates will be filed and paid when due in order to preserve the tax-exempt status of the outstanding debt.

6.4 Federal and state law compliance practices

Discussed in Debt Issuance Practices sections 5.3 and 5.4 and Debt Management Practices sections 6.1 and 6.3.

6.5 Market and investor relations efforts

The City shall endeavor to maintain a positive relationship with the investment community. The City shall communicate through its published Biennial Budget, Capital Improvement Program and Comprehensive Annual Financial Statements the City's indebtedness as well as its future financial plans.

6.6 Periodic review

The City's debt policy shall be adopted by City Council. The policy shall be reviewed every four years by the Council Finance Committee and modifications shall be submitted to and approved by City Council.

RESOLUTION R-4837

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
ADOPTING A REVISED POLICY FOR THE MANAGEMENT OF THE
CITY'S DEBT.

WHEREAS, the City Council of the City of Kirkland deems to
ensure that all debt is issued both prudently and cost effectively; and

WHEREAS, the City Council of the City of Kirkland desires to
set forth guidelines for the issuance and management of all financings
of the City; and

WHEREAS, the Kirkland City Treasurer (Deputy Director of
Finance) has recommended revisions to the debt management
policies; and

WHEREAS, the City of Kirkland debt management policy has
been written in accordance with the Association of Public Treasurers of
the United States & Canada (APT US&C) guidelines.

NOW, THEREFORE, be it resolved by the City Council of the
City of Kirkland as follows:

Section 1. The policy for the management of the City's debt
set forth in the document entitled "City of Kirkland Debt Management
Policy September 1, 2010," which is attached hereto and incorporated
herein by this reference as if set forth in full is hereby adopted as
official policy for the management of the City's debt.

Section 2. That the document entitled City of Kirkland Debt
Management Policy September 1, 2010, replaces all previous City of
Kirkland Debt Management Policies.

Passed by majority vote of the Kirkland City Council in open
meeting this 21st day of September, 2010.

Signed in authentication thereof this 21st day of September
2010.


MAYOR

Attest:


City Clerk

GLOSSARY



GLOSSARY OF BUDGET TERMS

ACCOUNT NUMBER

Kirkland utilizes an account structure that conforms to the state BARS (Budgeting, Accounting, and Reporting System) requirements. The account number is separated into the following parts:

XXX – XXX – XXXX * X – XX – XXXX
FUND DEPT FUNCTION CLASS CATEGORY ELEMENT

FUND groups indicate a discrete set of revenues and expenditures. Funds help maintain financial records of transactions. By state law, cities must balance revenues and expenditures at the fund level. BARS assigns the fund groups and the City assigns specific fund numbers. For example, all funds in the 100 group are special revenue funds while Fund 154 is Kirkland's Cemetery Improvement Fund.

DEPARTMENT/DIVISION numbers indicate the organizational unit making an expenditure. For example, the Fire and Building Department uses all codes in the 900 group and the Training Division within the Fire and Building Department uses the number 940. Revenue accounts do not contain department numbers; instead, the code 000 occupies the department/division slot. BARS does not dictate department/division numbers.

FUNCTION codes indicate the governmental function associated with an expenditure and are assigned by BARS. For example, an expenditure account with the function code 1880 indicates that the expenditure is related to data processing. Revenue accounts do not contain function codes; instead, the code 0000 occupies the function slot.

CLASS indicates the type of activity, with a 3 indicating revenue and a 5 designating expenditures. These numbers are assigned by BARS.

CATEGORY describes the "what" of the transaction. For expenditures the category indicates the specific item purchased or services obtained. For revenues the category indicates the source from which the revenues are obtained. For example, an expenditure

with a category of 31 would be the purchase of office and operating supplies. Revenue with a category of 11 would indicate property tax.

ELEMENT is a further segregation of the Category information.

ACCRUAL BASIS

An accounting basis which recognizes transactions when they occur. An organization records expenses when the liability occurs and posts revenues when they are earned. The Water/Sewer, Surface Water, Equipment Rental, and Information Technology Funds prepare year-end reports on the accrual basis. Kirkland uses a modified accrual basis of accounting for the reporting of all other funds. The budget is prepared on a cash basis (see later glossary entry).

ACTUAL

Denotes final audited revenue and expenditure results of operations for fiscal year(s) indicated.

APPROPRIATION

Through an appropriation ordinance, the City Council legally authorizes the City to spend money and to incur obligations for specific purposes. Budgetary/Operating fund appropriations lapse at the end of each biennium. Non-operating fund appropriations, on the other hand, continue in force until fully expended or until the City has accomplished or abandoned the purpose for which the Council granted the funds. Spending cannot exceed the level of appropriation without the Council's approval.

ASSESSED VALUATION

When the King County Assessor's Office determines the value of both real (land and buildings) and personal property, it arrives at the assessed valuation of the property. The County uses this value to compute property taxes.

ASSET

Property owned by the government and resources owned or held by a government that has monetary value.

BARS

The State of Washington Budgeting, Accounting, and Reporting System required for all governmental entities in the state.

BASIC BUDGET

Kirkland develops its basic budget when it estimates how much it will cost to continue providing the existing ongoing level of service in the next biennium. The basic budget incorporates mandatory increases due to inflation or contract obligations.

BIENNIAL BUDGET

The City's financial operating plan for the next two fiscal years. Washington state law requires that the first year of a biennial budget be an odd-numbered year. Accordingly, the preparation of the biennial budget falls on an even-numbered year.

BIENNIUM

A two-year period.

BENEFITS

City-paid benefits provided for employees, such as Social Security, retirement, worker's compensation, life insurance, and medical insurance.

BOND

A bond is a written promise to pay a specified sum of money (called the face value or principal amount) at a specified date or dates in the future (called the maturity date) together with period interest at a specified rate. Kirkland uses the sale of bonds to finance some of its large capital projects.

BOND RATING

When the City issues debt, a thorough review of the City's financial condition is completed by bond rating agencies. Based on their findings, the bonds are given a rating. The City's bond rating is a reflection of

its creditworthiness and affects the cost to the City of issuing debt. There are two rating agencies – Standard and Poor's (S&P) and Moody's Investor Service – that rate Kirkland's bonds. As of January 2003, the City's ratings were AA (S&P) and Aa2 (Moody's).

BUDGET

As the City's financial operating plan for the fiscal biennium, the budget displays the estimated expenditures (costs) for providing services and the estimated sources of revenue (income) to pay for them. Once the City Council appropriates the fund totals shown in the budget, the totals become maximum spending limits. By state law, the City must balance its budget with expenditures equaling available revenues. RCW 35A.33 contains the legal authority and requirements for Kirkland's budget.

BUDGET MESSAGE

A general discussion of the proposed budget as presented in writing by the City Manager to the legislative body.

CASH BASIS

A basis of accounting where revenues are recorded when the cash is received and expenditures are recorded when paid. Kirkland prepares its budget on a cash basis.

CAPITAL IMPROVEMENT PROGRAM (CIP)

The plan or schedule of expenditures and funding sources for major construction of roads, sidewalks, City facilities, and water/sewer systems, and for the purchase of equipment. Kirkland's CIP follows a six-year schedule and includes projects which cost \$50,000 or more to complete. These projects become fixed assets and, with the exception of certain equipment, have a useful life of ten years or more. Although the City adopts the CIP budget in a process which is separate from the adoption of the biennial budget, the biennial budget incorporates the first and second years of the program.

CAPITAL OUTLAY

Expenditures for furnishings, equipment, vehicles, or machinery with an individual value greater than \$10,000 and a useful life of more than one year.

CAPITAL PROJECT

The acquisition, construction, improvement, replacement or renovation of land, structures and improvements thereon, and equipment. When the City Council authorizes a capital project, it adopts a capital project budget which continues until the project is complete.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

A general purpose, federal grant primarily used to facilitate the production and preservation of low and moderate income housing and programs.

CONTINGENCY

Kirkland appropriates money to these reserve funds which it can use in the future should specific budget allotments run out and the City needs additional funds. Contingency funds are especially useful when emergencies arise that require the City to make unforeseen expenditures.

COUNCILMANIC DEBT

Debt which the City Council approves, but which does not require voter approval.

CREDIT RATING

The credit worthiness of a governmental unit as determined by an independent rating agency. The City of Kirkland is rated by two rating agencies: 1) Moody's Investor Service and 2) Standard and Poor's.

DEBT CAPACITY

The amount of debt which the City can issue given legal limits and fiscal policies. Debt capacity is calculated based on a percentage of the total assessed city property valuation plus the net of current assets and liabilities.

DEBT SERVICE

The annual payment of principal and interest on the City's bonded indebtedness.

DEFICIT

An excess of expenditure over revenue.

DEPARTMENT

To facilitate organizational and budgetary accountability, Kirkland breaks its funds into departments. Each department serves a specific function as a distinct organizational unit of city government.

DEPRECIATION

An accounting recognition that reduces a portion of the original cost of a business asset over several years as the value of the asset decreases.

DIVISION

As subdivisions of departments, divisions are budgetary or organizational units of government with limited sets of work responsibilities within their department. Divisions also serve to increase budget accountability.

ENCUMBRANCES

The amount of funds committed to vendors for goods or services received or to be received by the City as specified in a City purchase order.

ENTERPRISE FUND

An accounting entity which the City uses to record and report transactions for its business-type activities. All expenditures must be supported by income dedicated to the fund. The most common enterprise funds are utility funds.

EXPENDITURE

The payment for goods and services. On the cash-basis, expenditures are recognized only when the payments are made for the cost of goods received or services rendered.

FEES

A general term for any charge for services levied by government associated with providing a service or permitting an activity. Major types of fees include business licenses and user charges.

FINES AND FORFEITURES

Revenue category which primarily includes court, police, traffic and parking fines, and forfeitures.

FISCAL POLICY

The City's policies with respect to revenues, spending, and debt management as these relate to government services, programs, and capital investment. Fiscal policy provides an agreed upon set of principles for the planning and programming of government budgets and their funding.

FISCAL YEAR

The twelve-month period which an organization designates as its operating year. In Kirkland, the fiscal year coincides with the calendar year. The City prepares a biennial budget for a period of two fiscal years, beginning in an odd-numbered year.

FIXED ASSETS

A long-term tangible piece of property that the City owns and is not expected to be consumed or converted into cash any sooner than at least one year's time.

FULL-TIME EQUIVALENT (FTE)

Kirkland budgets its employee positions in terms of the work year of a regular, full-time employee. For example, when the City budgets a position full-time for only six months, that position is 0.5 FTE. Likewise, a half-time position budgeted for a full year is also 0.5 FTE. A full-time position is 1.00 FTE.

FUND

Municipal governments organize and operate their accounting systems on a fund basis. The formal definition of the fund is an independent financial and accounting entity with a self-balancing set of accounts in which cities record financial transactions relating to revenues, expenditures, assets, and liabilities. Each

fund must be budgeted independently with revenues equal to expenditures. With the exception of the General Fund, which accounts for general purpose activities and unrestricted revenue sources, each fund has a unique funding source and purpose. By establishing funds, the City can account for the use of restricted revenue sources and carry on specific activities or pursue specific objectives.

FUND BALANCE

The cumulative difference between expenditures and revenue over the life of a fund. A negative fund balance is usually referred to as a deficit.

GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

Both industry and governments use Generally Accepted Accounting Principles as standards for accounting and reporting financial activity. The Governmental Accounting Standards Board (GASB) currently sets government GAAP. Adherence to GAAP assures that financial reports of all state and local governments - regardless of jurisdictional legal provisions and customs - contain the same type of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria.

GASB 34

Governmental Accounting Standards Board Statement 34 (GASB 34) sets requirements for the content and format of the annual financial report.

GENERAL FUND

The General Fund accounts for revenues and expenditures associated with ordinary City operations that are not required to be accounted for in another fund. Individual departments within the General Fund account for expenditures incurred to provide various general-purpose municipal services.

GENERAL OBLIGATION BONDS

Bonds for which the City pledges its full faith and credit (the general taxing power) for repayment. Debt Service is paid from property tax revenue levied (in the case of voter-approved bonds) or other general

revenue (in the case of Councilmanic bonds).

GRANT

A transfer of county, state, or federal monies to the City, usually for specific programs or activities.

INDIRECT COST

Cost of centrally provided internal services for which there is a citywide benefit that cannot be readily identified to specific departments.

INFRASTRUCTURE

Long-lived capital assets that can be preserved for a significantly greater number of years than most capital assets and are stationary in nature.

INTERFUND TRANSFERS

When the City moves money between its various funds, it makes an interfund transfer.

INTERGOVERNMENTAL REVENUES

Revenues from other governments in the form of state shared revenue and grants.

INTERNAL CONTROLS

Policies and procedures established to provide reasonable assurance that specific government objectives will be achieved.

INTERNAL SERVICE FUND

An accounting entity which the City uses to record and report transactions for goods and services provided by one department to other City departments on a cost reimbursement basis. The City currently has three internal service funds, the Equipment Rental Fund, Facilities Fund and the Information Technology Fund.

LEOFF

The State of Washington's Law Enforcement Officers and Firefighters Retirement System.

LEVY RATES

The rate of tax to be imposed on the assessed value of real property for the computation of property tax revenues. (See also Property Tax Levy)

LICENSES AND PERMITS

Revenue category that includes building permits, business licenses, and any other miscellaneous licenses.

LID

In a Local Improvement District the City makes special assessments against certain properties to defray part or all of the cost of a specific improvement or service which it deems will primarily benefit those properties. The assessments can be paid in full or in installments over a set period of time.

LINE-ITEM BUDGET

In its biennial budget, Kirkland estimates revenues and expenditures at the line-item level. The line-item budget contains a great degree of detail since it indicates how the City spends its money and the sources from which it receives revenue. Examples of line items in Kirkland's budget are postage, uniforms and clothing, hourly wages, fuel, etc.

MAINTENANCE

The act of keeping capital assets in a state of good repair. It includes preventive maintenance, normal periodic repairs, replacement of parts, structural components and so forth, and other activities needed to maintain the asset so that it continues to provide normal services and achieves its optimum life.

MODIFIED ACCRUAL BASIS

Kirkland uses this basis of accounting for year-end reporting which is adapted to the governmental fund type spending. The City recognizes revenues when they become both "measurable" and "available" to finance expenditures of the current period (i.e., when it is received). The City recognizes an expenditure, other than accrued interest on general fiscal long-term debt, when it is incurred (i.e., an obligation is made).

NONDEPARTMENTAL

This department has the sole purpose of accounting for all expenditures that the City cannot specifically designate to any operating department within a fund. Examples of expenses in the area include shared paper products and support of outside organizations.

NON-OPERATING BUDGET

The non-operating budget contains non-operating funds which the City uses to finance projects with limited objectives and/or finite life spans. By law, these budgets do not lapse at the end of the biennium, but may be carried forward from year to year until the monies are fully expended or their purposes are accomplished or abandoned. As a matter of practice, Kirkland prepares biennial budgets for all non-operating funds. The non-operating budget accounts primarily for debt, reserves, and capital projects.

OBJECTIVE

A specific measurable achievement that may be accomplished within a specific time frame.

OPERATING BUDGET

The operating budget provides a plan for current expenditures and the proposed means of financing them. In a broader sense, the biennial operating budget is a statement of what services the municipality will deliver to its citizens.

OPERATING REVENUES

Funds that the government receives as income to pay for ongoing operations.

ORDINANCE

A formal legislative enactment by the Council or governing body of a governmental entity.

PERFORMANCE INDICATOR

Specific quantitative and qualitative measures of work performed as an indicator of specific department or program activity or accomplishment.

PERFORMANCE MEASURE

A measure of how well a particular result is being achieved. Indicators of program performance that are collected to show the impact of resources spent on city services directly tied to program results.

PERS

The State of Washington's Public Employees Retirement System for employees other than police and fire personnel.

PERSONNEL SERVICES

Expenditures which include salary costs, wages, and benefits, for full-time and part-time hourly employees and overtime expenses.

PRELIMINARY BUDGET

The recommended, but unapproved, biennial budget which the City Manager presents to the City Council and the public.

PROGRAM BUDGET

A program is made up of a group of similar services which have a common purpose. A program budget presents planned expenditures for each group of services without regard to the departments involved in performing the services. For example, most services performed by the Police and Fire departments are related to protecting the public and naturally become part of a Public Safety Program along with prosecuting personnel, the municipal court, and other related service activities.

PROPERTY TAX LEVY – REGULAR

This represents the amount of property tax allowable under State law which the City may levy annually without approval by the City's registered voters. Kirkland uses this tax primarily to support the General Fund and street-related services. The City also has a separately voted Parks Maintenance Levy. State law fixes the maximum levy in dollars per \$1,000 of assessed valuation and the annual rate at which total regular levy property taxes may increase.

PROPERTY TAX LEVY – SPECIAL (OR EXCESS)

This represents the amount of property tax which a city government may charge in excess of the "regular levy" upon the approval of this tax by a vote of the people. Cities most commonly use the revenue to pay the annual costs of voter-approved general obligation bonds. State law imposes a maximum limit on the dollar amount of such bonds which a city may have outstanding at any one time.

PROPRIETARY FUND

See Enterprise Fund.

RESERVE

An account which the City uses either to set aside budgeted revenues that it does not need to spend in the current biennium or to earmark revenues for a specific future purpose.

RESOURCES

Total dollars available for appropriation, including estimated revenues, interfund transfers, and other financing sources such as beginning resources forward balances.

RESOURCES FORWARD

Each City fund uses this revenue account to record estimated and actual resources available for expenditure in the biennium because of revenues collected in excess of the budget and/or expenditures less than the budget in the prior biennium. Can also be called Beginning Fund Balance.

RESTRICTED/UNRESTRICTED REVENUE

The City most commonly receives restricted revenue in three ways. First, a person pays a fee to the City and the City will use that money to provide a specific product, service, or capital asset. Second, the receipt of money is directly tied to an expenditure or is restricted by law. Finally, the City considers revenue restricted when voters or the City Council have designated it for a specific purpose. All other revenues are unrestricted.

REVENUE

Sources of income which the City receives during a fiscal year. Examples of revenue include taxes, intergovernmental grants, charges for service, and other financing sources such as the proceeds derived from the sale of fixed assets.

REVENUE BONDS

City-issued bonds which pledge future revenues, usually water, sewer, garbage, or drainage charges, to cover debt payments in addition to operating costs.

SERVICE PACKAGE

Capital equipment, a new service, or a project which City departments add to their basic budget to enhance the quality and/or quantity of service they provide to the public.

SPECIAL REVENUE FUNDS

Funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

SUPPLIES

Cost of goods consumed by the City in the course of its operations.

TAX LEVY

The total amount to be raised by general property taxes for the purposes stated in the tax levy ordinance. (See also Property Tax Levy and Levy Rate.)

UNRESERVED FUND BALANCE

The funds remaining after reduction for reserved balances.

USER CHARGES

The amount the government receives for the provision of services and commodities, or the performance of specific services benefiting the person charged. User charges tend to be voluntary in nature, in contrast to mandatory property and income taxes. Citizens only pay user charges when a specific service is received.

